

WESTERN HILLS AREA EDUCATION AGENCY 12

Independent Auditors' Reports

Basic Financial Statements and Supplementary Information

Schedule of Findings and Questioned Costs

June 30, 2004

WESTERN HILLS AREA EDUCATION AGENCY 12

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WESTERN HILLS AREA EDUCATION AGENCY 12

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>BOARD OF DIRECTORS</u> (Before September 2003 Election)		
Larry Petersen	President	2003
David Freese	Vice President	2005
Tom Bruegger	Member	2004
Judith Burke	Member	2005
Glenda DenHerder	Member	2004
Jim Ebel	Member	2004
Earl Kizzier	Member	2005
David Pratt	Member	2003
Robert Rice	Member	2003

BOARD OF DIRECTORS
(After September 2003 Election)

Larry Petersen	President	2006
David Freese	Vice President	2005
Glenda Den Herder	Member	2004
Judy Burke	Member	2005
Patricia Sutherland	Member	2006
Robert Rice	Member	2006
Earl Kizzier	Member	2005
Tom Bruegger	Member	2004
Jim Ebel	Member	2004

AGENCY

Bruce E. Hopkins	Administrator	2004
Geneice Wagner	Board Secretary	2004
Steve Schermann	Treasurer/Business Manager	2004



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants
Member Private Companies Practice Section of AICPA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Hills Area Education Agency 12

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Hills Area Education Agency 12 as of and for the year ended June 30, 2004, which collectively comprise the Area Education Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Western Hills Area Education Agency 12 at June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 4, 2004 on our consideration of Western Hills Area Education Agency 12's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

To the Board of Directors
Western Hills Area Education
Agency 12

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and page 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Western Hills Area Education Agency 12's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein), and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sioux City, Iowa
October 4, 2004

King, Reinsch, Prosser & Co., L.L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Western Hills Area Education Agency 12 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$15,652,512 in fiscal 2003 to \$15,984,033 in fiscal 2004, while General Fund expenditures increased from \$14,241,736 in fiscal 2003 to \$14,419,660 in fiscal 2004. This resulted in an increase in the Agency's General Fund balance from \$1,632,202 for fiscal 2003 to \$1,926,880 for fiscal 2004, an 18 percent increase.
- Senate File 453 of the 2003 Iowa General Assembly temporarily reduced controlled funding for AEA's by \$10 million. Western Hills Area Education Agency 12's portion of this is \$620,915. This reduction was offset by an increase in federal grant revenue and by containment of personnel and non-personnel expense.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Western Hills Area Education Agency 12 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency as a Whole

Government-Wide Financial Statements:

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets - the difference between the Agency's assets and liabilities - are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements:

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

The Agency has one kind of fund:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Reconciliations between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Western Hills Area Education Agency 12's net assets at the end of fiscal 2004 totaled approximately \$3.5 million. This compared to approximately \$3.5 million at the end of fiscal 2003. The analysis that follows focuses on the net assets and changes in net assets.

		Condensed Statement of Net Assets	
		<u>Governmental Activities</u>	
		<u>2004</u>	<u>2003</u>
Current and other assets		\$ 5,748,604	\$ 4,410,681
Capital assets		<u>2,032,659</u>	<u>2,150,025</u>
Total assets		<u>\$ 7,781,263</u>	<u>\$ 6,560,706</u>
Long-term obligations		386,906	234,471
Other liabilities		<u>3,904,751</u>	<u>2,825,461</u>
Total liabilities		<u>\$ 4,291,657</u>	<u>\$ 3,059,932</u>
Net assets:			
Invested in capital assets, net of related debt		1,921,460	2,010,025
Unrestricted		<u>1,568,146</u>	<u>1,490,749</u>
Total net assets		<u>\$ 3,489,606</u>	<u>\$ 3,500,774</u>

The Agency's net assets decreased approximately \$11,000 from fiscal 2003.

The following analysis shows the changes in net assets of the Agency's activities.

	<u>Changes in Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues:		
Charges for service	\$ 417,056	\$ 396,690
Operating grants and contributions	6,936,310	6,066,176
General revenues:		
Property tax	4,278,922	4,239,800
State Foundation Aid	4,975,603	5,575,845
Unrestricted investment earnings	15,710	21,544
Gain on sale of capital asset	1,366	-
Miscellaneous	84,568	30,144
Total revenues	<u>\$ 16,709,535</u>	<u>\$ 16,330,199</u>
Program expenses:		
Instruction	719,741	662,586
Student support services	7,921,653	7,873,252
Instructional staff support services	3,998,910	3,783,222
General administration	742,905	751,573
Business administration	159,341	142,976
Printing, delivery services and coop support services	403,338	422,645
Plant operations and maintenance	289,318	255,764
Central and other support services	1,126,415	1,054,791
Long-term debt interest	5,807	5,996
LEA flow through	1,241,961	817,435
Depreciation unallocated	111,314	103,824
Total expenses	<u>\$ 16,720,703</u>	<u>\$ 15,874,064</u>
Increase (decrease) in net assets, before reversion	(11,168)	456,135
Reversion to State Treasurer	-	(512,949)
Increase (decrease) in net assets	\$ (11,168)	\$ (56,814)
Net assets beginning of year	<u>3,500,774</u>	<u>3,557,588</u>
Net assets end of year	<u>\$ 3,489,606</u>	<u>\$ 3,500,774</u>

Operating grants and contributions from local, state and federal sources account for 42 percent of the total revenue. The Agency's expenses primarily relate to student support services and instructional staff support services, which account for 71 percent of the total expenses.

INDIVIDUAL FUND ANALYSIS

As previously noted, Western Hills Area Education Agency 12 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$1,926,880, more than last year's ending fund balances of \$1,632,202. The primary reason for the increase in combined fund balances in fiscal 2004 was due to containment of personnel and non-personnel expense.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its annual operating budget one time to reflect adjustments to funding sources and reclassifications among expenditures. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Agency had invested \$2,032,659, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of approximately \$117,000 from last year.

Western Hills Area Education Agency 12 had depreciation expense of \$439,044 in fiscal 2004 and total accumulated depreciation of \$5,685,326 at June 30, 2004. More detailed information about capital assets is available in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2004, the Agency had \$469,933 in long-term debt outstanding compared to \$281,453 at June 30, 2003. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- Senate File 2298 of the 2004 General Assembly reduced state aid to AEA's by \$11.8 million for Fiscal Year 2005. Western Hills Area Education Agency 12's portion of this is \$728,897. This is the same amount as was reduced for Fiscal Year 2004 (\$10 million in state aid and \$1.8 million for a 2.5 percent across the board cut) and is in addition to a previous \$7.5 million reduction made permanent. Western Hills Area Education Agency 12's portion of this permanent reduction is \$471,185.

- The Agency has experienced an increase in IDEA, Part B funding in the past three years. Half of the increase has been passed on to local school districts by agreement on the state level. The Agency's share of Fiscal Year 2005 funding increase is \$393,956.

It is important to recognize the nature of the political climate, funding levels and regional perspectives, which impact Western Hills Area Education Agency 12. The impact of the legislative cuts and declining student numbers is evident throughout the document as a result of those activities Western Hills Area Education Agency 12 is committed to collaborating and ultimately merging with Area Education Agency 4 in Sioux Center.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Western Hills Area Education Agency 12, Sioux City, Iowa.

BASIC FINANCIAL STATEMENTS

WESTERN HILLS AREA EDUCATION AGENCY 12STATEMENT OF NET ASSETSJUNE 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Cash and pooled investments (Note 2)	\$ 2,307,439
Receivables:	
Accounts	303,820
Due from other governments	1,351,703
Inventories	39,079
Prepaid expenses	2,427
Restricted ISCAP assets:	
Investments (Note 3)	1,744,136
Capital assets (net of accumulated depreciation) (Note 4)	<u>2,032,659</u>
Total assets	<u>\$ 7,781,263</u>
LIABILITIES:	
Accounts payable	421,151
Salaries and benefits payable	1,264,052
ISCAP warrants payable (Note 3)	1,759,000
Deferred revenue:	
Federal	236,267
Miscellaneous	141,254
Long-term liabilities (Note 5):	
Portion due or payable within one year:	
Notes payable (Note 6)	30,074
Early retirement benefits (Note 7)	52,953
Portion due or payable after one year:	
Notes payable (Note 6)	81,125
Early retirement benefits (Note 7)	173,695
Compensated absences	<u>132,086</u>
Total liabilities	<u>\$ 4,291,657</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 1,921,460
Unrestricted	<u>1,568,146</u>
Total net assets	<u>\$ 3,489,606</u>

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

		Program Revenues		Net (Expense)
				Revenue and
				Changes in
				Net Assets
	Expenses	Charges for Service	Operating Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Instruction	\$ 719,741	\$ -	\$ -	\$ (719,741)
Student support services	7,921,653	-	5,694,349	(2,227,304)
Instructional staff support services	3,998,910	417,056	-	(3,581,854)
General administration	742,905	-	-	(742,905)
Business administration	159,341	-	-	(159,341)
Printing, delivery services, and coop support services	403,338	-	-	(403,338)
Plant operations and maintenance	289,318	-	-	(289,318)
Central and other support services	1,126,415	-	-	(1,126,415)
Interest on long-term debt	5,807	-	-	(5,807)
LEA flow through	1,241,961		1,241,961	-
Depreciation unallocated	<u>111,314</u>	<u>-</u>	<u>-</u>	<u>(111,314)</u>
Total governmental activities	<u>\$ 16,720,703</u>	<u>\$ 417,056</u>	<u>\$ 6,936,310</u>	\$ (9,367,337)
GENERAL REVENUES:				
Property tax				4,278,922
State Foundation Aid				4,975,603
Unrestricted investment earnings				15,710
Gain on sale of capital assets				1,366
Miscellaneous				<u>84,568</u>
Change in net assets				\$ (11,168)
Net assets beginning of year				<u>3,500,774</u>
Net assets end of year				<u>\$ 3,489,606</u>

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12BALANCE SHEETGOVERNMENTAL FUNDSJUNE 30, 2004

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
ASSETS:			
Cash and pooled investments (Note 2)	\$ 2,132,376	\$ 175,063	\$ 2,307,439
Receivables:			
Accounts	303,820	-	303,820
Due from other governments	1,345,514	6,189	1,351,703
Inventories	39,079	-	39,079
Prepaid expenditures	2,427	-	2,427
Restricted ISCAP assets:			
Investments (Note 3)	<u>1,744,136</u>	<u>-</u>	<u>1,744,136</u>
Total assets	<u>\$ 5,567,352</u>	<u>\$ 181,252</u>	<u>\$ 5,748,604</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 419,188	\$ 1,963	\$ 421,151
Salaries and benefits payable	1,226,017	38,035	1,264,052
ISCAP warrants payable (Note 3)	1,759,000	-	1,759,000
Deferred revenue:			
Federal	236,267	-	236,267
Miscellaneous	<u>-</u>	<u>141,254</u>	<u>141,254</u>
Total liabilities	<u>\$ 3,640,472</u>	<u>\$ 181,252</u>	<u>\$ 3,821,724</u>
Fund balances:			
Reserved for:			
Inventories	\$ 39,079	\$ -	\$ 39,079
Prepaid expenditures	2,427	-	2,427
Unreserved:			
Undesignated	<u>1,885,374</u>	<u>-</u>	<u>1,885,374</u>
Total fund balances	<u>\$ 1,926,880</u>	<u>\$ -</u>	<u>\$ 1,926,880</u>
Total liabilities and fund balances	<u>\$ 5,567,352</u>	<u>\$ 181,252</u>	<u>\$ 5,748,604</u>

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTALFUNDS TO THE STATEMENT OF NET ASSETSJUNE 30, 2004

TOTAL GOVERNMENTAL FUND BALANCES (PAGE 12)	\$ 1,926,880
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The costs of assets is \$7,717,985 and the accumulated depreciation is \$5,685,326.	2,032,659
Long-term liabilities, including notes payable, early retirement benefits and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(469,933)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 10)	<u>\$ 3,489,606</u>

WESTERN HILLS AREA EDUCATION AGENCY 12STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCESGOVERNMENTAL FUNDSYEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
REVENUES:			
Local sources	\$ 5,083,841	\$ 6,680	\$ 5,090,521
State sources	4,536,097	716,955	5,253,052
Federal sources	<u>6,364,095</u>	<u>-</u>	<u>6,364,095</u>
Total revenues	<u>\$ 15,984,033</u>	<u>\$ 723,635</u>	<u>\$ 16,707,668</u>
EXPENDITURES:			
Current:			
Instruction	\$ -	\$ 723,635	\$ 723,635
Student support services	7,828,810	-	7,828,810
Instructional staff support services	3,944,384	-	3,944,384
General administration	745,393	-	745,393
Business administration	150,737	-	150,737
Printing, delivery services, and coop support services	403,522	-	403,522
Plant operations and maintenance	286,968	-	286,968
Central and other support services	1,059,846	-	1,059,846
Debt service	<u>-</u>	<u>34,608</u>	<u>34,608</u>
Total expenditures	<u>\$ 14,419,660</u>	<u>\$ 758,243</u>	<u>\$ 15,177,903</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,564,373	\$ (34,608)	\$ 1,529,765
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of capital assets	6,874	-	6,874
LEA flow through	(1,241,961)	-	(1,241,961)
Transfers in	-	34,608	34,608
Transfers out	<u>(34,608)</u>	<u>-</u>	<u>(34,608)</u>
Total other financing sources (uses)	<u>\$ (1,269,695)</u>	<u>\$ 34,608</u>	<u>\$ (1,235,087)</u>
NET CHANGE IN FUND BALANCES	\$ 294,678	\$ -	\$ 294,678
FUND BALANCES BEGINNING OF YEAR	<u>1,632,202</u>	<u>-</u>	<u>1,632,202</u>
FUND BALANCES END OF YEAR	<u>\$ 1,926,880</u>	<u>\$ -</u>	<u>\$ 1,926,880</u>

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (PAGE 14) \$ 294,678

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Expenditures for capital assets	\$ 326,686	
Depreciation expense	<u>(439,044)</u>	(112,358)

Repayment of long-term liabilities is an expenditure in the governmental funds, reduces long-term liabilities in the statement of net assets but is not reported in the statement of activities.

28,801

Capital assets contributed 500

Governmental funds report the proceeds from sales of capital assets as increases in fund balance while governmental activities report the difference between sales proceeds and the net book value (cost less accumulated depreciation) of the related capital assets as gain or loss:

Sale proceeds	\$ (6,874)	
Net gain on sale	<u>1,366</u>	(5,508)

Compensated absences and early retirement expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

(217,281)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 11) \$ (11,168)

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Cash and pooled investments	\$ 5,140
Accounts receivable	<u> 46,654</u>
Total assets	<u>\$ 51,794</u>
LIABILITIES:	
Accounts payable	<u>\$ 51,794</u>
Total liabilities	<u><u>\$ 51,794</u></u>

See notes to financial statements.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Western Hills Area Education Agency 12 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 24 school districts and several private schools in a six-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

A. Reporting Entity - For financial reporting purposes, Western Hills Area Education Agency 12 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. Western Hills Area Education Agency 12 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements - Financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for non-negotiable certificates of deposits which are stated at cost.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Building improvements	5,000
Furniture and equipment	500
Library books	Aggregated annual purchases

Capital assets of the Agency are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20
Building improvements	20
Furniture and equipment	5-7
Library books	5

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Deferred revenue represents an excess of cash advances by funding source over accrued expenditures at year end.

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The Agency's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, collateralized with securities or letter of credit held by the Agency or the Agency's agent in the Agency's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2 - CASH AND POOLED INVESTMENTS (CONTINUED):

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency's investments at June 30, 2004 consisted of funds held in a money market account. The carrying amount and market value is \$2,307,439.

The Agency's investments are not subject to risk categorization.

NOTE 3 - IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP):

The Agency participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank Iowa, N.A., and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semi-annual period. Wells Fargo Bank, N.A. maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the Statement of Net Assets and balance sheet. A summary of the Agency's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Warrants Payable</u>
2004-05A	6/30/04	6/30/05	<u>\$ 1,744,136</u>	<u>\$ 1,759,000</u>

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last day the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25 percent of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 3 - IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP) (CONTINUED):

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2004-05A	\$ -	\$ -	\$ -	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates On Warrants</u>	<u>Interest Rates On Investments</u>
2004-05A	2.000%	1.051%

NOTE 4 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2004 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 125,685	\$ -	\$ -	\$ 125,685
Capital assets being depreciated:				
Buildings	\$ 368,218	\$ -	\$ -	\$ 368,218
Building improvements	2,364,016	-	-	2,364,016
Furniture and equipment	2,087,867	174,366	105,122	2,157,111
Library books	2,600,391	152,820	50,256	2,702,955
Total capital assets being depreciated	\$ 7,420,492	\$ 327,186	\$ 155,378	\$ 7,592,300
Less accumulated depreciation for:				
Buildings	\$ 214,711	\$ 18,411	\$ -	\$ 233,122
Building improvements	1,355,678	92,903	-	1,448,581
Furniture and equipment	1,598,302	176,458	99,614	1,675,146
Library books	2,227,461	151,272	50,256	2,328,477
Total accumulated depreciation	\$ 5,396,152	\$ 439,044	\$ 149,870	\$ 5,685,326
Total capital assets being depreciated, net	\$ 2,024,340	\$ (111,858)	\$ (5,508)	\$ 1,906,974
Governmental activities capital assets, net	\$ 2,150,025	\$ (111,858)	\$ (5,508)	\$ 2,032,659

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 4 - CAPITAL ASSETS (CONTINUED):

	<u>Balance End of Year</u>
Depreciation expense was charged to the following functions:	
Governmental activities:	
Instruction	\$ -
Student support services	41,894
Instructional staff support services	192,869
General administration	4,430
Business administration	4,340
Printing, delivery services and coop support services	23,254
Plant operations and maintenance	21,037
Central and other support services	39,906
Unallocated depreciation	<u>111,314</u>
 Total governmental activities depreciation expense	 <u>\$ 439,044</u>

NOTE 5 - CHANGES IN LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Notes payable	\$ 140,000	\$ -	\$ 28,801	\$ 111,199	\$ 30,074
Early retirement benefits	-	253,493	26,845	226,648	52,953
Compensated absences	<u>141,453</u>	<u>-</u>	<u>9,367</u>	<u>132,086</u>	<u>-</u>
 Total	 <u>\$ 281,453</u>	 <u>\$ 253,493</u>	 <u>\$ 65,013</u>	 <u>\$ 469,933</u>	 <u>\$ 83,027</u>

NOTE 6 - NOTES PAYABLE:

The Agency is obligor with respect to a School Remodeling Project Note dated October 1, 2002 for the original amount of \$140,000. The note calls for semi-annual payments of \$17,304 including interest at the coupon rate of 4.37 percent per annum through October 1, 2007.

The scheduled maturities with respect to this note follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 30,074	\$ 4,534	\$ 34,608
2006	31,402	3,206	34,608
2007	32,789	1,819	34,608
2008	<u>16,934</u>	<u>370</u>	<u>17,304</u>
	<u>\$ 111,199</u>	<u>\$ 9,929</u>	<u>\$ 121,128</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 7 - EARLY RETIREMENT BENEFITS:

The Agency provides early retirement benefits to eligible personnel based on the financial condition of the Agency. The Agency pays a certain amount of the retiring employees' health insurance premiums until they become eligible for Medicare. The benefit amount is based on the agreement in effect on the employees' retirement date.

The liability related to these benefits as of June 30, 2004 is estimated at \$226,648, and is recorded on the Government-Wide Statement of Net Assets. The current portion of \$52,953 is due within one year and the long-term portion of \$173,695 extends beyond one year. The estimate is based on the current health insurance premiums, the number of people who had accepted the benefit as of June 30, 2004 and their ages as of June 30, 2004. Currently, 9 retirees are receiving these benefits. The benefit payments for the year ended June 30, 2004 totaled \$26,845.

NOTE 8 - PENSION AND RETIREMENT BENEFITS:

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70 percent of their annual covered salary and the Agency is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$542,841, \$541,724, and \$537,622, respectively, equal to the required contributions for each year.

NOTE 9 - OPERATING LEASES:

The Agency has leased various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases, and accordingly, all rents are charged to expenditures as incurred. The leases are generally for one-year terms and are renewable for additional periods. Some of the leases also require the payment of normal maintenance and utilities on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

Total rental expenditures for the year ended June 30, 2004, for all operating leases totaled \$18,700.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 - OPERATING LEASES (CONTINUED):

In April 2004, the Agency entered into a pool plan lease arrangement with Xerox calling for monthly payments of \$14,089 for the use of certain copying equipment.

The Agency paid \$193,857 pursuant to the arrangement for the year ended June 30, 2004. The future noncancellable payments under this arrangement are as follows:

<u>Year Ending June 30,</u>	<u>Noncancellable Payments</u>
2005	\$ 169,068
2006	169,068
2007	<u>42,267</u>
	<u>\$ 380,403</u>

NOTE 10 - RISK MANAGEMENT:

Western Hills Area Education Agency 12 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - SUBSEQUENT EVENT:

Western Hills Area Education Agency 12 is collaborating with Area Education Agency 4 on a proposed merger of the two organizations into a single agency. The tentative date of the reorganization is July 1, 2006.

Subsequent to a feasibility study commissioned by both Boards, in August 2004 Western Hills AEA 12 Board voted to continue the merger process. At its September 2004 meeting, AEA 4 Board voted to continue the merger process. The next significant reorganization date will be July 15, 2005 when a reorganization plan will be submitted to the State Board of Education.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	<u>Actual</u>	<u>Budget Amount</u>		<u>Final to Actual</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
REVENUES:				
Local sources	\$ 5,090,521	\$ 5,026,678	\$ 4,834,132	\$ 256,389
State sources	5,253,052	5,923,985	5,465,962	(212,910)
Federal sources	<u>6,364,095</u>	<u>6,366,416</u>	<u>6,427,261</u>	<u>(63,166)</u>
Total revenues	<u>\$ 16,707,668</u>	<u>\$ 17,317,079</u>	<u>\$ 16,727,355</u>	<u>\$ (19,687)</u>
EXPENDITURES				
Current:				
Instruction	\$ 723,635	\$ 707,638	\$ 799,138	\$ 75,503
Student support services	7,828,810	8,290,265	7,812,662	(16,148)
Instructional staff support services	3,944,384	3,969,597	4,238,303	293,919
General administration	745,393	796,597	791,229	45,836
Building administration	-	52,548	35,548	35,548
Business administration	150,737	222,463	670,192	519,455
Printing, delivery services and coop support services	403,522	280,650	413,639	10,117
Plant operations and maintenance	286,968	363,448	362,193	75,225
Central and other support services	1,059,846	2,647,083	1,101,478	41,632
Noninstructional programs	-	200,000	205,000	205,000
Debt service	<u>34,608</u>	<u>35,000</u>	<u>35,000</u>	<u>392</u>
Total expenditures	<u>\$ 15,177,903</u>	<u>\$ 17,565,289</u>	<u>\$ 16,464,382</u>	<u>\$ 1,286,479</u>
EXCESS (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	\$ 1,529,765	\$ (248,210)	\$ 262,973	\$ 1,266,792
OTHER FINANCING SOURCES (USES), NET	<u>(1,235,087)</u>	<u>(17,750)</u>	<u>(1,241,961)</u>	<u>6,874</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 294,678	\$ (265,960)	\$ (978,988)	\$ 1,273,666
BALANCE BEGINNING OF YEAR	<u>1,632,202</u>	<u>1,660,650</u>	<u>2,145,688</u>	<u>(513,486)</u>
BALANCE END OF YEAR	<u>\$ 1,926,880</u>	<u>\$ 1,394,690</u>	<u>\$ 1,166,700</u>	<u>\$ 760,180</u>

See accompanying independent auditors' report.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2004

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

WESTERN HILLS AREA EDUCATION AGENCY 12COMBINING BALANCE SHEETNONMAJOR GOVERNMENTAL FUNDSJUNE 30, 2004

	Special Revenue		
	Juvenile Home	Debt Service	Total
ASSETS:			
Cash and pooled investments	\$ 175,063	\$ -	\$ 175,063
Accounts receivable	<u>6,189</u>	<u>-</u>	<u>6,189</u>
Total assets	<u>\$ 181,252</u>	<u>\$ -</u>	<u>\$ 181,252</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 1,963	\$ -	\$ 1,963
Salaries and benefits payable	38,035	-	38,035
Deferred revenue	<u>141,254</u>	<u>-</u>	<u>141,254</u>
Total liabilities	<u>\$ 181,252</u>	<u>\$ -</u>	<u>\$ 181,252</u>
Fund balances:			
Unreserved, undesignated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities and fund balances	<u>\$ 181,252</u>	<u>\$ -</u>	<u>\$ 181,252</u>

See accompanying independent auditors' report.

WESTERN HILLS AREA EDUCATION AGENCY 12

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCESNONMAJOR GOVERNMENTAL FUNDSYEAR ENDED JUNE 30, 2004

	Special Revenue		
	Juvenile Home	Debt Service	Total
REVENUES:			
Local sources	\$ 6,680	\$ -	\$ 6,680
State sources	716,955	-	716,955
Total revenues	\$ 723,635	\$ -	\$ 723,635
EXPENDITURES:			
Current:			
Instruction	\$ 723,635	\$ -	\$ 723,635
Debt service	-	34,608	34,608
Total expenditures	\$ 723,635	\$ 34,608	\$ 758,243
DEFICIENCY OF REVENUES UNDER EXPENDITURES	\$ -	\$ (34,608)	\$ (34,608)
OTHER FINANCING SOURCES:			
Transfers in	\$ -	\$ 34,608	\$ 34,608
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ -
FUND BALANCES BEGINNING OF YEAR	-	-	-
FUND BALANCES END OF YEAR	\$ -	\$ -	\$ -

See accompanying independent auditors' report.

WESTERN HILLS AREA EDUCATION AGENCY 12SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -ALL GOVERNMENTAL FUND TYPESFOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Local	\$ 5,090,521	\$ 4,912,210	\$ 4,221,558	\$ 4,082,141
State	5,253,052	5,767,273	5,630,911	6,108,882
Federal	<u>6,364,095</u>	<u>5,647,693</u>	<u>4,854,117</u>	<u>3,830,210</u>
Total	<u>\$ 16,707,668</u>	<u>\$ 16,327,176</u>	<u>\$ 14,706,586</u>	<u>\$ 14,021,233</u>
Expenditures:				
Current:				
Instruction	\$ 723,635	\$ 666,392	\$ 647,384	\$ 589,268
Student support services	7,828,810	7,790,512	8,125,429	7,280,984
Instructional staff support services	3,944,384	3,747,843	3,379,581	3,368,907
General administration	745,393	742,414	759,791	764,790
Business administration	150,737	139,031	434,417	445,988
Printing, delivery services and coop support services	403,522	414,108	-	-
Plant operations and maintenance	286,968	237,888	274,336	300,319
Central and other support services	1,059,846	1,169,940	1,306,372	1,684,505
Debt service	34,608	79,655	90,564	90,564
Facilities acquisition and construction	<u>-</u>	<u>264,295</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,177,903</u>	<u>\$ 15,252,078</u>	<u>\$ 15,017,874</u>	<u>\$ 14,525,325</u>

See accompanying independent auditor's report.

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSYEAR ENDED JUNE 30, 2004

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education - Grants to States:	84.027		
IDEA - Part B		030412	\$ 5,313,868
Parent-Educator		37412	61,865
LEA Success4		03K75-12	96,260
Supplemental Support Services		3K72-12	84,751
Diagnostic Evaluation Program		3K71-12	10,306
Online Medication Training		G-370-12MA	1,000
Para Educator Training		3K76-12	7,000
			<u>\$ 5,575,050</u>
Special Education - Preschool Grants:	84.173		
Section 619		03619-12	\$ 215,128
Special Education - Grants for Infants and Families			
With Disabilities:	84.181		
IDEA - Part C		C03-12	\$ 194,556
Eisenhower Professional Development State Grants	84.281	103-761	\$ 47,512
Tech-Prep Education	84.243	97-9212	\$ 82,731
English Language Acquisition Grants	84.365		\$ 214,732
Special Education - State Program Improvement Grants			
For Children with Disabilities:	84.323		
SIG/IEP Improvement		3IEP-12	\$ 18,607
Reading First State Grants	84.357		\$ 15,779
			<u>\$ 6,364,095</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Western Hills Area Education Agency 12 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Western Hills Area Education Agency 12

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Hills Area Education Agency 12 as of and for the year ended June 30, 2004, which collectively comprise Western Hills Area Education Agency 12's basic financial statements and have issued our report thereon dated October 4, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Western Hills Area Education Agency 12's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
Western Hills Area Education Agency 12

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Hills Area Education Agency 12's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Western Hills Area Education Agency 12's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations on those statutes.

This report is intended solely for the information and use of the officials, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Western Hills Area Education Agency 12 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Sioux City, Iowa
October 4, 2004

King, Reinsch, Prosser & Co., L.L.P.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Western Hills Area Education Agency 12

Compliance

We have audited the compliance of Western Hills Area Education Agency 12, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Western Hills Area Education Agency 12's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Western Hills Area Education Agency 12's management. Our responsibility is to express an opinion on Western Hills Area Education Agency 12's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Government and Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Western Hills Area Education Agency 12's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Western Hills Area Education Agency 12's compliance with those requirements.

In our opinion, Western Hills Area Education Agency 12 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

To the Board of Directors
Western Hills Area Education Agency 12

Internal Control Over Compliance

The management of Western Hills Area Education Agency 12 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the officials, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sioux City, Iowa
October 4, 2004

King, Reinsch, Prosser & Co., L.L.P.

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.027 - Special Education - Grants to States
 - CFDA Number 84.173 - Special Education - Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (I) Western Hills Area Education Agency 12 did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Instances of Non-compliance:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-compliance:

No matters were noted.

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting

- 04-IV-A Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 04-IV-B Budget - Expenditures during the year ended June 30, 2004 did not exceed the amount budgeted.
- 04-IV-C Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- 04-IV-D Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 04-IV-E Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- 04-IV-F Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 04-IV-G Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 04-IV-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- 04-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education and we noted no significant deficiencies in the amounts.